

CRS Report for Congress

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Navy Littoral Combat Ship (LCS): Background and Issues for Congress

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Summary

The Littoral Combat Ship (LCS) is a small, fast Navy surface combatant with modular weapon systems. The Navy wants to procure a total of 55. The first was procured in FY2005, three more were procured in FY2006, and the Navy's proposed FY2007 budget requests \$521 million to procure two additional ships. The estimated procurement cost of each LCS has grown to about \$260 million, an increase of about 18% over the original target cost of \$220 million. Section 124 of the conference report on the FY2006 defense authorization bill (H.R. 1815) limits the cost of the two FY2007 ships to \$220 million per ship. The Navy's FY2007 unfunded requirements list (URL) — its "wish list" of items desired but not included in the FY2007 budget — includes an additional two LCSs for an additional \$520 million. LCSs are being built at three shipyards to two designs developed by two industry teams. For a longer discussion of the LCS program, see CRS Report RL32109, *Navy DD(X), CG(X), and LCS Ship Acquisition Programs: Oversight Issues and Options for Congress*, by Ronald O'Rourke. This report will be updated as events warrant.

Background

The Navy announced the LCS program in November 2001 as part of a proposed family of next-generation Navy surface combatants that also includes the much-larger DD(X) destroyer and CG(X) cruiser.¹ The LCS is a small, fast surface combatant that uses modular "plug-and-fight" mission payload packages, including unmanned vehicles (UVs). The primary intended missions of the LCS are countering enemy mines, submarines, and fast attack craft (i.e., "swarm boats") in heavily contested littoral (near-shore) waters. Secondary LCS missions include intelligence, surveillance, and reconnaissance (ISR); maritime intercept; special operations forces (SOF) support; and

¹ For more on the DD(X) and CG(X), see CRS Report RL32109, *Navy DD(X), CG(X), and LCS Ship Acquisition Programs: Oversight Issues and Options for Congress*, by Ronald O'Rourke.

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logistics support for movement of personnel and supplies. The LCS is also mentioned in connection with the Navy's role in the Global War on Terrorism (GWOT).²

The Navy wants to procure a total of 55 LCSs. The first was procured in FY2005, and three more were procured in FY2006. The FY2005 ship and one of the FY2006 ships were procured through the Navy's research and development account. The other two FY2006 ships and all subsequent LCSs are being procured through the Shipbuilding and Conversion, Navy (SCN) appropriation account. The Navy's FY2007-FY2011 shipbuilding plan includes two LCSs in FY2007, three in FY2008, and six per year in FY2009-FY2011.

The Navy's proposed FY2007 budget requests \$521 million to procure two additional LCSs. Section 124 of the conference report on the FY2006 defense authorization bill (H.R. 1815), however, limits the cost of the two FY2007 ships to \$220 million per ship, for a total of \$440 million. The Navy's FY2007 unfunded requirements list (URL) — its "wish list" of items desired but not included in the FY2007 budget — includes an additional two LCSs for an additional \$520 million.

On May 27, 2004, the Navy awarded contracts to teams led Lockheed Martin and General Dynamics (GD) for final system design of two "Flight 0" versions of the LCS, with options for detailed design and construction of up to two LCSs each. The Lockheed team is building the FY2006 LCS and one of the FY2007 ships, while the GD team is building the other two FY2006 ships. The Navy wants to build at least a few LCSs to the two Flight 0 designs before deciding whether to continue building one design, the other, or both. Lockheed is building its LCSs at Marinette Marine of Marinette, WI, and Bollinger Shipyards of Louisiana and Texas; GD is building its LCSs at Austal USA of Mobile, AL. These yards are not among the six yards that have built the Navy's major warships in recent years.

The Navy is procuring LCS mission modules through the Other Procurement, Navy (OPN) account rather than the SCN account. **Table 1** shows LCS funding through FY2011 as shown in the *FY2006-FY2011 Future Years Defense Plan (FYDP)* submitted to Congress in early 2005. This table, which reflects a different LCS procurement profile than the one described above, will be updated with figures from the FY2007-FY2011 FYDP when those figures become available.

The Navy wanted the LCS "sea frame" — the basic LCS, without any mission modules — to have a procurement cost of no more than \$220 million, but figures from the FY2007 budget suggest that the estimated cost for each LCS sea frame has grown to about \$260 million — an increase of about 18%.

Cost figures for LCS mission modules from **Table 1** for FY2009-FY2011, combined with this \$260 million figure, suggest that when the cost of mission modules is added in, the LCS program might have an average ship procurement cost of about \$428 million, and that a program of 55 LCSs might therefore have a total acquisition (i.e., research and development plus procurement) cost of about \$24.3 billion.

² For more on the Navy's role in the GWOT, see CRS Report RS22373, *Navy Role in Global War on Terrorism (GWOT) — Background and Issues for Congress*, by Ronald O'Rourke.

Table 1. LCS Program Funding, FY2002-FY2009
(millions of then-year dollars; totals may not add due to rounding)

	03	04	05	06	07	08	09	10	11	Total thru FY11
Research, Development, Test & Evaluation, Navy (RDT&EN) account										
Ship 1 construction	0	0	212.5	0	0	0	0	0	0	212.5
Ship 2 construction	0	0	0	240.5	0	0	0	0	0	240.5
Procurement of ship long-lead items	0	0	16.0	0	0	0	0	0	0	16.0
Ships 1 and 2 outfitting/post delivery	0	0	0	8.7	36.7	36.7	7.1	0	0	89.2
LCS ship development	35.3	158.3	224.2	117.3	130.8	57.7	37.1	37.9	16.4	815.0
LCS mission package project	0	0	0	209.9	131.6	65.3	57.1	80.6	34.3	578.8
Subtotal RDT&EN	35.3	158.3	452.6	576.5	299.2	159.8	101.3	118.4	50.6	1952.0
Shipbuilding and Conversion, Navy (SCN) account										
Ships 3-22, (<i>qty</i>)	0	0	0	0	542.4 (2)	779.7 (3)	1127.2 (5)	1112.3 (5)	1110.3 (5)	4671.9 (20)
Subtotal SCN	0	0	0	0	542.4	779.7	1127.2	1112.3	1110.3	4671.9
Other Procurement, Navy (OPN) account (for LCS mission modules)										
Subtotal OPN	0	0	0	36.8	108.4	221.5	748.8	738.7	813.7	2667.9
Weapons Procurement, Navy (WPN) account										
Subtotal WPN	0	0	0	0	0	0	48.3	48.4	59.3	156.0
TOTAL	35.3	158.3	452.6	613.3	950.0	1161.0	2025.6	2017.8	2033.9	9447.8

Source: Navy FY2006 budget justification books. This table, which reflects a different LCS procurement profile than the one described above, will be updated with figures from the FY2007-FY2011 FYDP when those figures become available.

Issues for Congress

Cost Growth on LCS Sea Frame. The \$40-million (18%) increase in the estimated procurement cost of each LCS sea frame raises potential oversight issues for Congress, including the following:

- When did the Navy first know that it would need to increase its estimated LCS sea frame procurement cost from \$220 million to a higher figure?
- What is the potential for the estimated cost to grow beyond \$260 million, and by how much?
- How does the Navy plan to reconcile the estimated \$520 million cost for the two LCSs requested for FY2007 with the FY2006 legislation limiting the cost of these two ships to \$220 million each, or a total of \$440 million?

Total Acquisition Cost. Although this CRS report estimates that a 55-ship LCS program might have a total acquisition cost of about \$24.3 billion, Navy officials

acknowledge that the cost of individual LCS mission modules and the ratio of mission modules to LCSs is not yet clear, and that the potential total acquisition cost of the LCS program, including mission modules, is therefore uncertain. Supporters could argue that total program acquisition cost will become clearer as the Navy works through the details of the program. Critics could argue that a major acquisition program like the LCS program should not proceed at full pace until its potential total costs are better understood.

Funding Strategy for Mission Modules. Table 1 suggests that the Navy's plan to procure LCS mission modules in the Other Procurement, Navy (OPN) account may result in 35% to 40% of the LCS program's total procurement costs being funded through this account. Supporters of this plan could argue that procuring LCS mission modules in the OPN account is consistent with the practice of procuring ship weapons (e.g., missiles and gun shells) through the Weapon Procurement, Navy (WPN) appropriation account or the Procurement of Ammunition, Navy and Marine Corps (PANMC) appropriation. Skeptics could argue that the LCS mission modules are not missiles and gun shells, but rather elements of the ships' combat systems, and that funding the modules through the OPN account rather than the ship-procurement (SCN) account would effectively obscure a significant portion of total LCS program procurement costs by placing it in a part of the Navy's budget that is less visible to Congress.

Industrial Base. Supporters of the current plan to build LCSs in yards other than the two current surface combatant builders — General Dynamics' Bath Iron Works (BIW) and Northrop Grumman's Ship Systems (NGSS) division — could argue that this will help constrain LCS construction costs because the yards in question have lower overhead costs than BIW or NGSS. Skeptics could argue that BIW and NGSS have considerable unused building capacity, that building LCSs at BIW or NGSS could reduce the cost of other Navy shipbuilding programs being performed at these yards by spreading BIW's or NGSS' fixed overhead costs over a larger amount of shipbuilding work, and that building LCSs at yards other than those that already build major ships for the Navy will create one or more additional shipyards with a strong dependence on Navy shipbuilding contracts and thereby exacerbate the current excess-capacity situation in Navy shipbuilding.

Potential Options for Congress. Potential options for Congress for the LCS program include the following:

- shift procurement of LCS mission modules to the Navy's ship-procurement (SCN) account to make these costs more visible to Congress;
- procure a few LCSs and then evaluate them in exercises before deciding whether to put the LCS into larger-scale series production;³
- procure LCSs at a rate of up to 10 per year to get LCSs into the fleet sooner and achieve better production economies of scale;
- procure LCSs at a rate of less than five per year so as to reduce annual LCS funding requirements; and
- terminate the LCS program and invest more in other littoral-warfare improvements.

³ For a discussion of this option see Robert O. Work, *Naval Transformation and the Littoral Combat Ship*, Center for Strategic and Budgetary Assessments, Feb. 2004.

Legislative Activity for FY2006

FY2006 Defense Authorization Bill (H.R. 1815/P.L. 109-163). Section 124 of the conference report (H.Rept. 109-360 of December 18, 2005) on H.R. 1815/P.L. 109-163 of January 6, 2006 limits the cost of the fifth and sixth LCSs to \$220 million per ship, with the limit to become effective with the budget that request funds for the procurement of the two ships. (This is the FY2007 budget.) The section also requires an annual report on the content, cost, and number of LCS mission packages, and states that no funds may be used for procurement of LCSs or LCS mission packages after the procurement of the first four LCSs until the Navy certifies in writing that stable designs exist for the LCS.

FY2006 Defense Appropriations Bill (H.R. 2863/P.L. 109-148). The conference report (H.Rept. 109-359 of December 18, 2005) on H.R. 2863/P.L. 109-148 of December 30, 2005 approves funding for the procurement of three LCSs in FY2006. The report approves \$582.7 million in research and development funding for the LCS program, a \$6.2-million increase over the requested amount. This total includes funding for the procurement of one LCS, as requested by the Navy. The conference report also includes an \$440 million in the Shipbuilding and Conversion, Navy (SCN) account, not requested by the Navy, for the procurement of two additional LCSs. Of the \$6.2-million increase in research and development funding, \$3.0 million is to be used for remote operation of active sonar technology (ROAST), \$2.2 million is for unmanned surface vehicle concepts and technology solutions, and \$1.0 million is for antisubmarine warfare multistatic sensor mission planing upgrade and LCS mission package projects.

The conference report states that “The conferees agree to the report on Littoral Combat Ship (LCS) mission modules proposed by the House, and specify that such report should include cost estimates for these modules by fiscal year.” The **House Appropriations Committee**, in its report (H.Rept. 109-119 of June 10, 2005) on **H.R. 2863**, stated:

The Committee directs that, prior to obligation of SCN funds for the third and fourth “flight zero” LCS ships, the Navy certify in writing to the congressional defense committees that the ship designs from each prime contractor are sufficiently stable to allow further construction. The Committee also believes that, while the LCS ship itself is of stable and mature design, the mission modules essential to LCS warfighting capabilities are less mature. A number of these technologies have not been demonstrated in an operational environment, and cost estimates for the mission modules appear immature as well. To address this issue, the Committee directs the Navy to submit, not later than February 1, 2006, a report on the development and procurement plan for LCS mission modules, including a description of the development status of each subsystem. (p. 146)